

Main Takeaways from our 12th EM Corporate Conference

Coming back full circle from COVID-19

- **We held our 12th Global Emerging Market Corporate Conference earlier this week (March 1-3) virtually**, given the challenges from COVID-19. While prior conference participants would have missed our usual Miami location (and weather) as well as the in-person interactions, the virtual format provided an opportunity to bring together more companies and investors than in the past and from a wider span of countries. Over 180 bond issuers held 1x1 and group meetings, and the number of investor participations was meaningfully higher. We hope to be able to return to Miami next year under a normalized format, with the dates planned for March 7-9, 2022.
- **Last year's conference turned out to be another inflection point for spreads**, as CEMBI Broad widened precipitously right after, rising by about 350bp to reach the highest level post-crisis in about a month before steadily recovering more or less to the level before the pandemic. Indeed, the spread at the time of our 2020 conference was 240bp, and after undergoing large swings during the year, was back to 243bp by the time of this year's conference. The key difference, of course, is that COVID-19 infections were at an early stage last year, whereas we are now in the recovery phase from the shocks of the pandemic and lockdowns.
- **Our takeaways from the panels, survey, and client discussions suggest a relatively sanguine outlook on EM corporates with concerns mainly over valuations and higher rates.** There are still various uncertainties related to the efficacy of the vaccine, speed/extent of normalization in economic activity, withdrawal of stimulus/support measures, US-China relations, and long-term implications of the higher sovereign debt burdens. Yet the more resilient fundamentals of EM corporates in terms of both credit metrics and defaults look to have provided better comfort and confidence that the asset class will be able to navigate future challenges and maintain the more stable performance.
- **A recurring theme in many of the panels was ESG**, which was discussed in numerous sessions even if it was not the main topic. This implies that ESG is not just a temporary trend but quickly becoming one of the main considerations for both investors and issuers. While the virtual format did provide an opportunity for more regionally diverse investor participation, it was still interesting to observe Asia and Middle East discussed as growing sources of alpha in one of the panels and Asia regarded as a good diversification play by half of survey respondents.
- We provide full results of the onsite survey and a summary of 29 panel sessions held during the conference.

This report summarizes the main messages from the presentations and, as such, represents the perspectives of the speakers and not necessarily the opinions of J.P. Morgan research analysts. All sessions from the conference were conducted under Chatham House rules, without direct attribution to the speakers and closed to the press. The views presented by the speakers do not necessarily coincide with the views of J.P. Morgan's research analysts.

See page 28 for analyst certification and important disclosures.

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Overall Conference Takeaways

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Last year's conference turned out to be another inflection point for spreads, as CEMBI Broad widened precipitously right after, rising by about 350bp to reach the highest level post-crisis in about a month before steadily recovering more or less to the level before the pandemic. Indeed, the spread at the time of our 2020 conference was 240bp, and after undergoing large swings during the year, was back to 243bp by the time of this year's conference. The key difference, of course, is that COVID-19 infections were at an early stage last year, whereas we are now in the recovery phase from the shocks of the pandemic and lockdowns.

Figure 1: CEMBI Broad spread around our conference



Source: J.P. Morgan.

Figure 2: CEMBI Broad spread move after past conferences (bp)

Conference start	Spread -1d	YTD	Change after conference		
			+1m	+3m	+6m
3/3/2010	353	(4)	(51)	18	(7)
3/2/2011	286	(6)	(12)	21	126
2/29/2012	400	(80)	(23)	35	(33)
2/26/2013	298	(1)	16	8	72
2/24/2014	333	13	(4)	(26)	(40)
2/23/2015	386	(1)	1	(67)	32
2/29/2016	506	53	(72)	(114)	(184)
2/27/2017	269	(31)	(5)	(9)	(14)
2/26/2018	225	(5)	21	45	85
2/25/2019	284	(54)	1	3	16
2/24/2020	240	(8)	348	211	97
3/1/2021	243	(15)			

Source: J.P. Morgan.

Our takeaways from the panels, survey, and client discussions suggest a relatively sanguine outlook on EM corporates with concerns mainly over valuations and higher rates. There are still various uncertainties related to the efficacy of the vaccine, speed/extent of normalization in economic activity, withdrawal of stimulus/support measures, US-China relations, and long-term implications of the higher sovereign debt burdens. Yet the more resilient fundamentals of EM corporates in terms of both credit metrics and defaults look to have provided better comfort and confidence that the asset class will be able to navigate future challenges and maintain the more stable performance. A recurring theme in many of the panels was ESG, which was discussed in numerous sessions even if it was not the main topic. This implies that ESG is not just a temporary trend but quickly becoming one of the main considerations for both investors and issuers. While the virtual format did provide an opportunity for more regionally diverse investor participation, it was still interesting to observe Asia and Middle East discussed as growing sources of alpha in one of the panels and Asia regarded as a good diversification play by half of survey respondents.

Results of the Virtual Survey

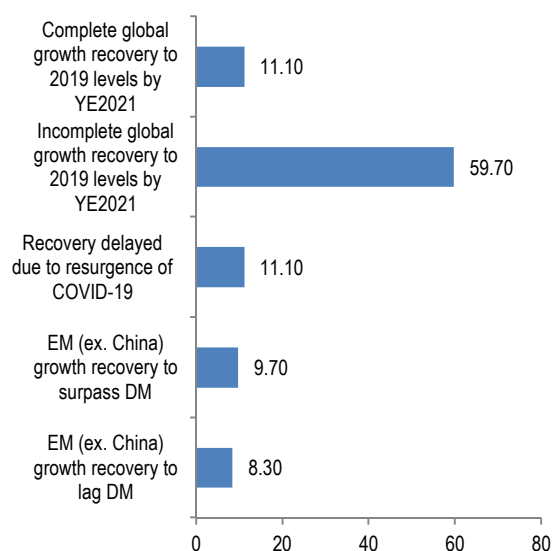
We ran an investor sentiment poll during our virtual J.P. Morgan Global EM Corporate Conference (March 1-3). The results of the poll suggested an overall positive sentiment, with a majority of respondents seeing spreads around current levels or tighter by YE21 (74%), positioning not yet appearing too stretched, and inflows still coming in (69% vs 5% with outflows). A rise in UST yields leading to a taper-tantrum like environment was unsurprisingly singled out as the biggest risk to EM performance (56%) and 73% of survey participants expect 10Y UST rates higher than today (1.5-2%) but with balanced tails. The second highest risk identified was COVID-19 variants leading to recurring global lockdowns (31%), while other risks such as a protracted default cycle in EM, fall in commodity prices, and US-China conflict escalation together garnered less than 15% of responses.

Positioning still does not look too stretched and investors appear poised to add to EM corporates in the near term. Although 59% of respondents noted being OW, only 10% are looking to reduce which is in-line with the number of investors that either have no allocations or are UW and looking to add. Elsewhere, 26% are neutral while 5% are UW with no plans to change allocations. Over half of investors expect to increase their allocations to EM corporates within EM fixed income over the next quarter modestly (47%) or significantly (9%), while just 5% plan to reduce modestly. A bit over two thirds of investors reported continuing to see inflows (69%) while outflows were noted for a minority of investors (5%). Latin America (47%) was picked as the favorite region to add to in the near term, while Mexican corporates were selected for best 2021 total returns (25%), followed by China and Turkey (16% each). Corporates from Argentina (44%) were selected as candidates for the worst 2021 total return with China and Brazil sharing distant second spot (15% apiece).

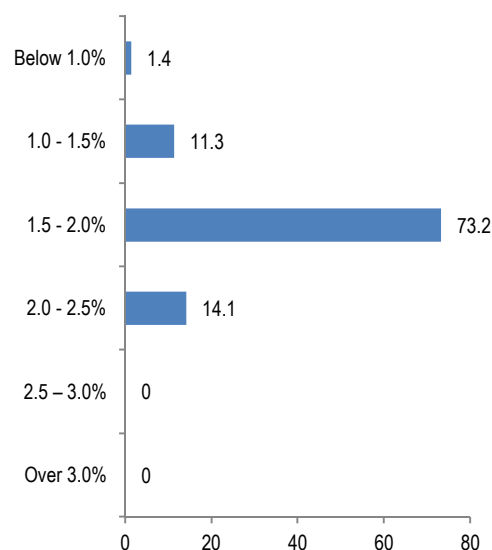
On fundamentals, the bulk of respondents (60%) expect an incomplete global growth recovery to 2019 levels by YE2021. However, the expectations on EM corporate fundamentals in particular were more divergent, with nearly an equal number of investors expecting improvement to pre-pandemic levels by YE2021, fundamentals taking years to normalization, and differentiation depending on COVID-19 impact. Nevertheless, defaults are expected by the bulk of investors to be idiosyncratic and average (3-4%, by 57%) or modest (~2%, by 29%). Please look out for our full takeaways report later this week for investor responses on credit, sector, and region specific questions as well as our panel takeaways.

Source for all charts: J.P. Morgan Survey. All charts are in percent (%).

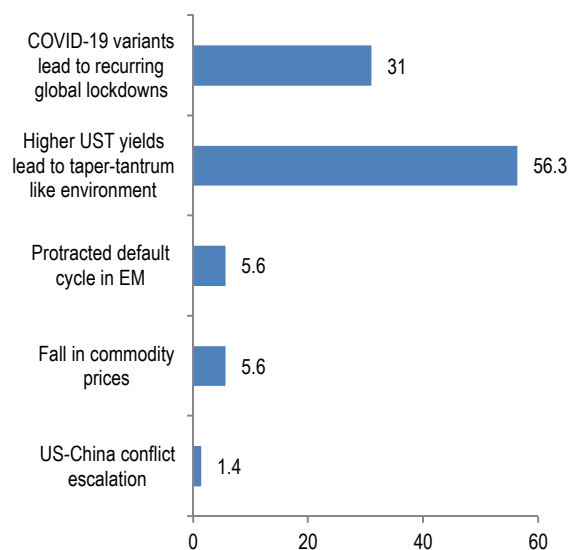
1. What are your expectations for the macro recovery this year?



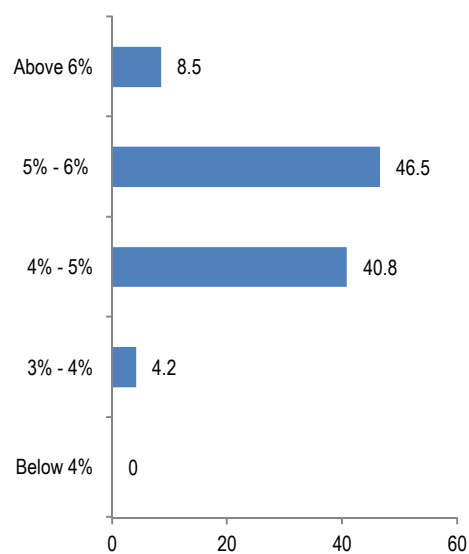
2. Where do you expect the 10-year US Treasury yield at the end of 2021 (Latest: 1.45%)?



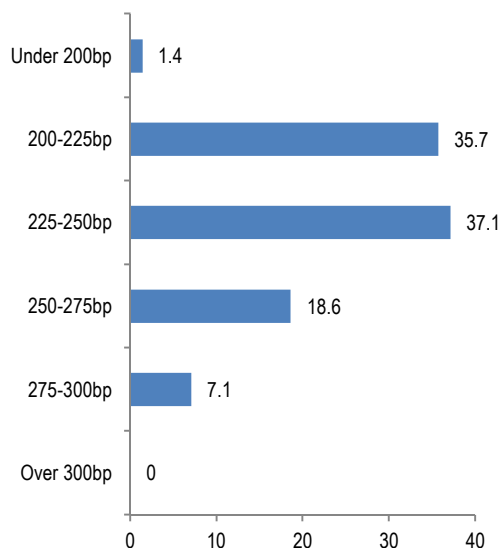
3. What do you consider to be the single biggest risk to EM performance?



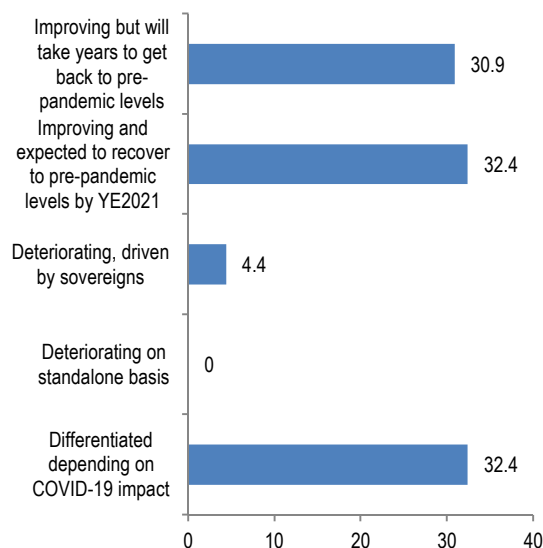
4. What do you expect China's medium-term GDP growth to be (i.e. from 2022-25)?



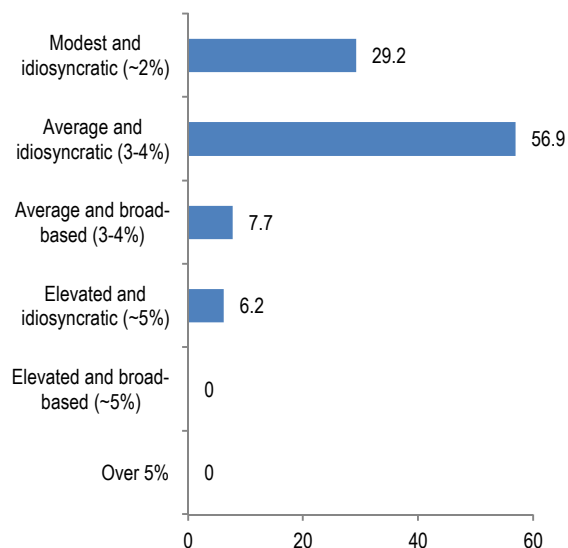
5. Where do you see CEMBI Broad spread at YE2021 (currently 240bp)?



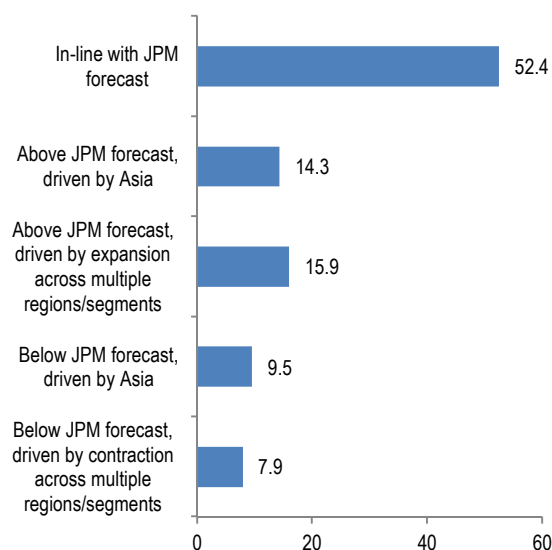
6. Which statement best describes your view on EM corporate fundamentals?



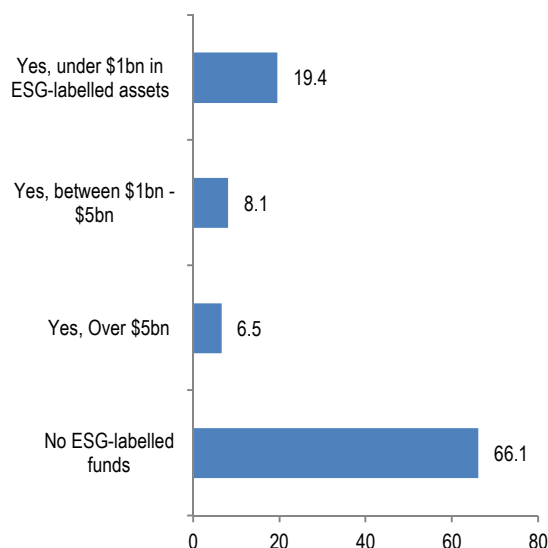
7. Which statement best describes your expectations on EM default rates in 2021 (2020: 3.5%)?



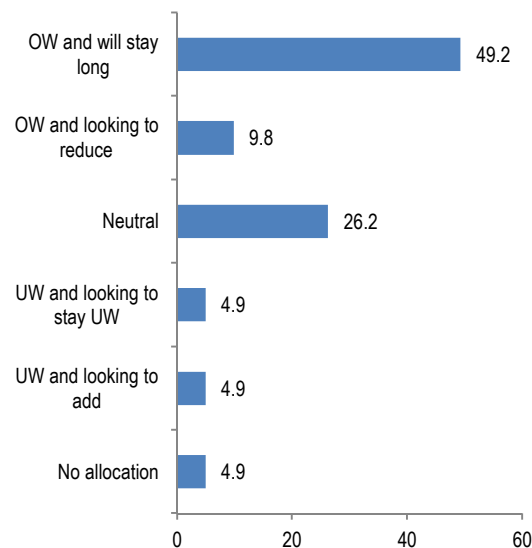
8. I expect gross issuance from EM corporates in 2021 to be (2020: \$497bn; JPM FY2021E = \$522bn):



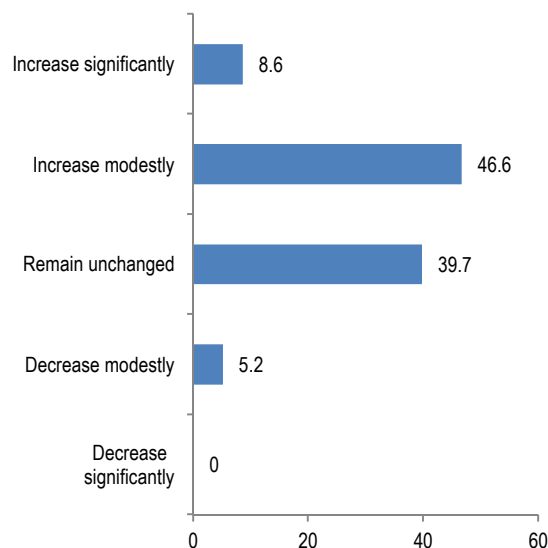
9. Do you currently offer Environmental, Social and Governance (“ESG”) labelled fixed income funds at your firm? What is the total AUM of such products?



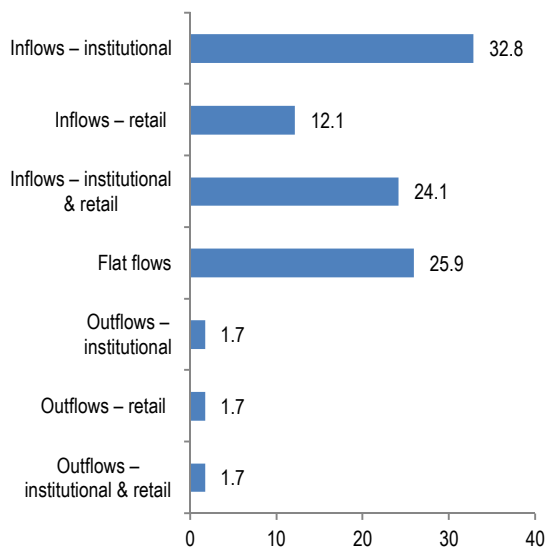
10. How are you currently positioned in EM Corporates within EM fixed income compared to one year ago?



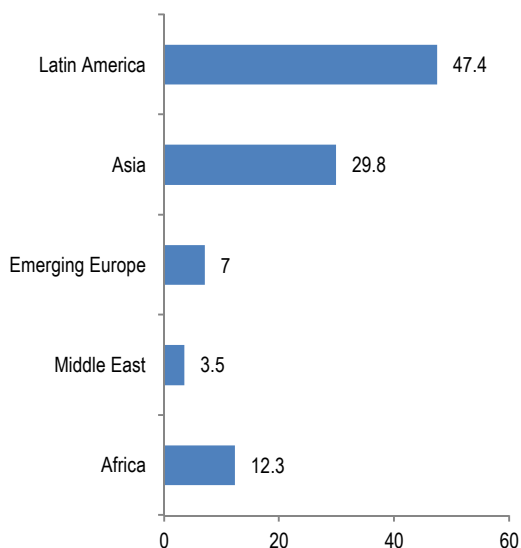
11. How do you expect your allocations to corporates within EM fixed income to change over the next quarter?



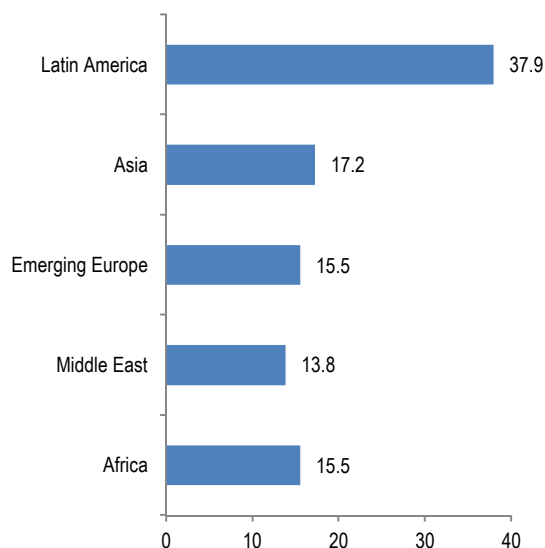
12. What fund flows are you experiencing?



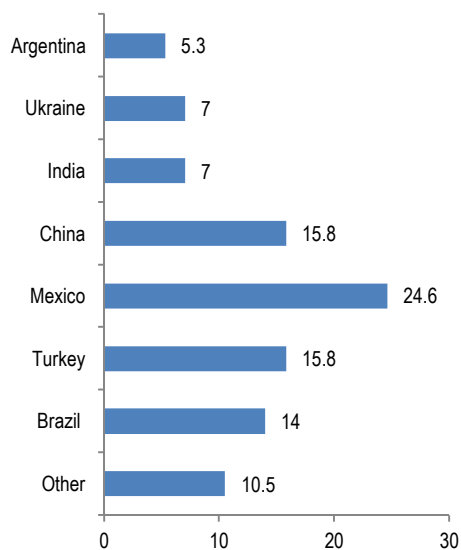
13. In the near term, I am likely to ADD risk in:



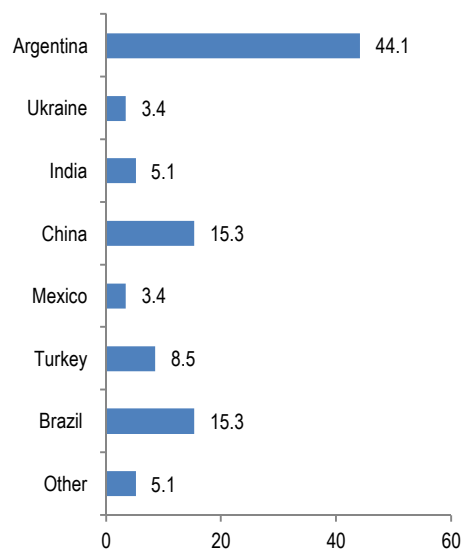
14. In the near term, I am likely to REDUCE risk in



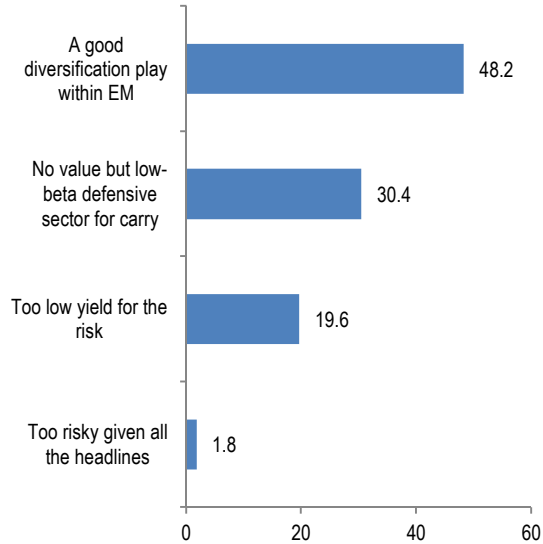
15. I expect corporates from the following country to have the best total return in 2021:



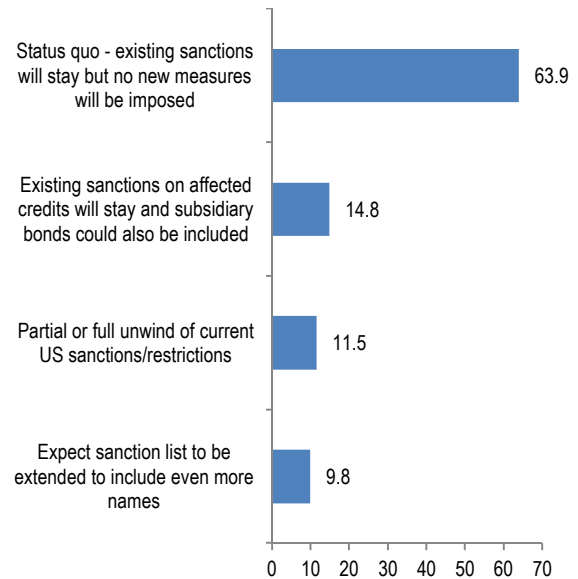
16. I expect corporates from the following country to have the worst total return in 2021:



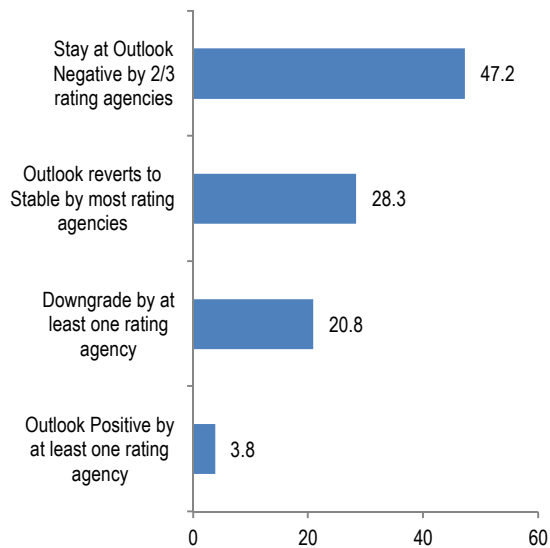
17. What best describes your view of Asia credit?



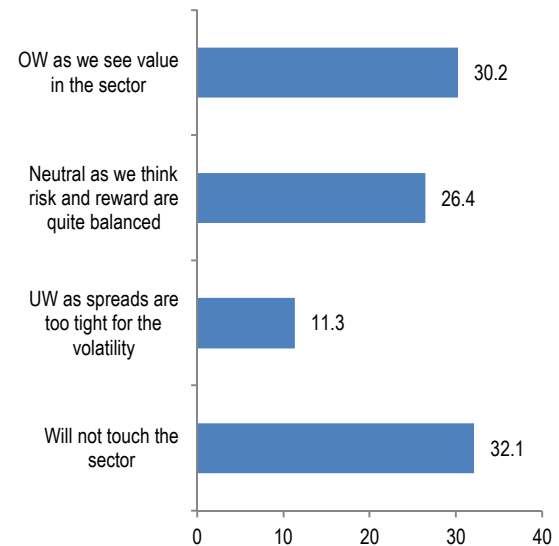
18. Do you expect the new US government to impose more sanctions on China corporates?



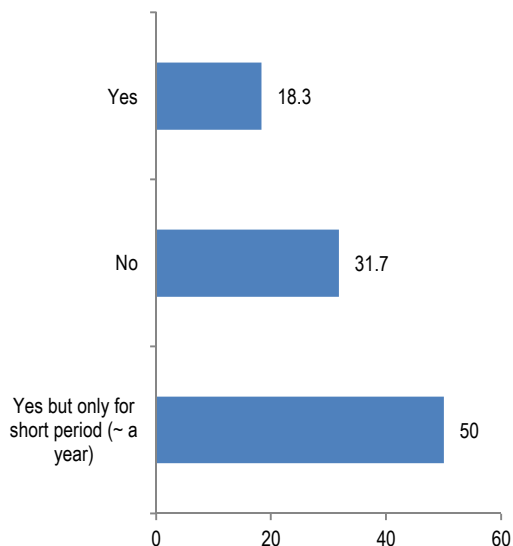
19. Where do you think India's sovereign ratings could transition to?



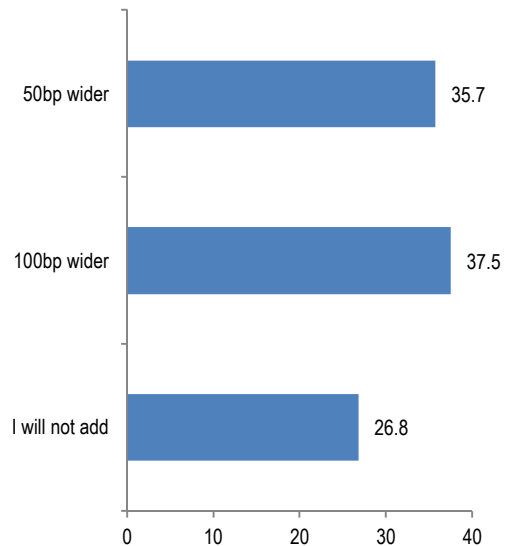
20. What are your views on China HY property sector?



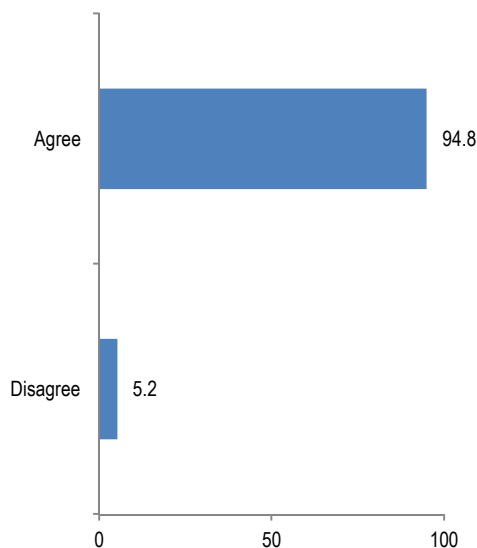
21. I find Turkey's return to a more consistent and orthodox policy mix under its new economic team credible and sustainable



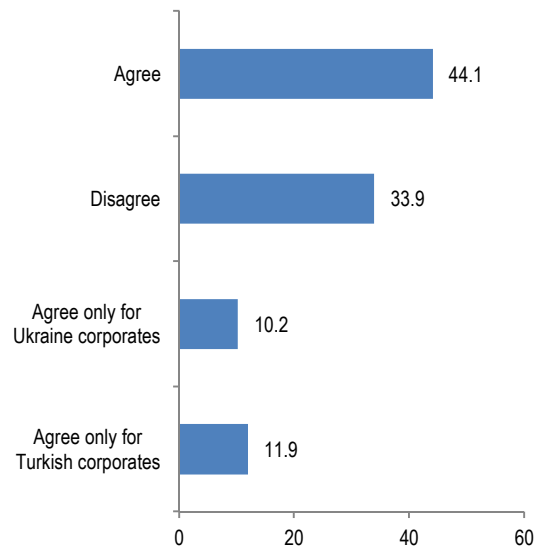
22. I would add Russian IG corporates and GREs if spreads were:



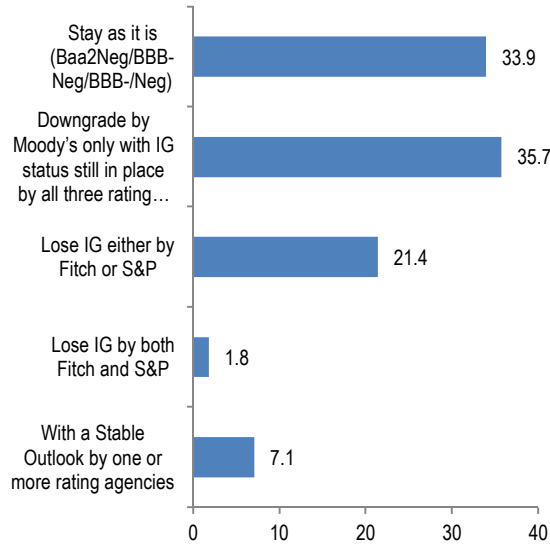
23. Abu Dhabi would come to Dubai's rescue if needed (similar to 2009)



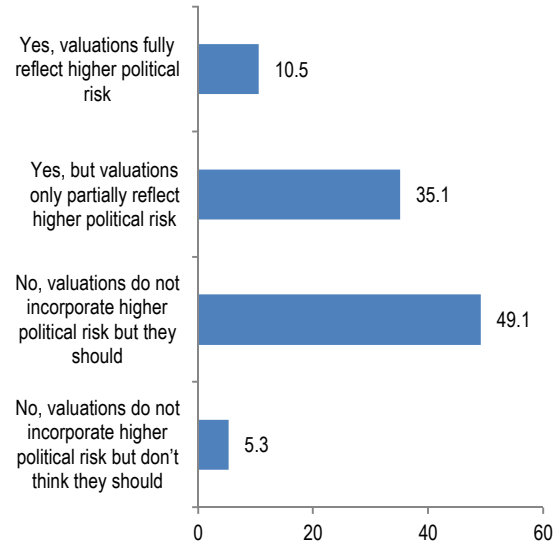
24. It makes sense for Ukraine and Turkish corporates to trade inside the sovereign



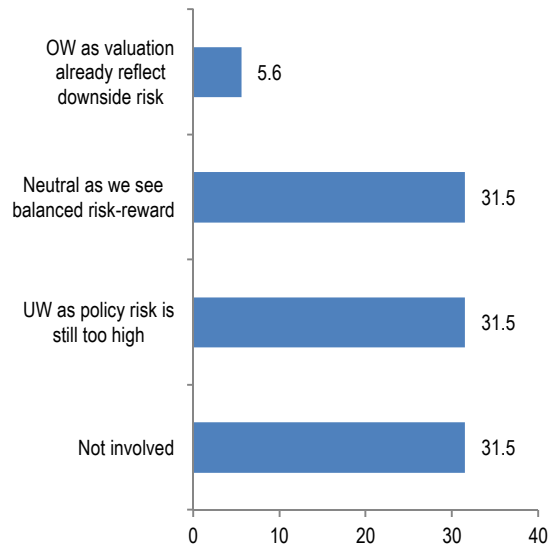
25. Where do you think Colombia's sovereign ratings will be at the end of 2021?



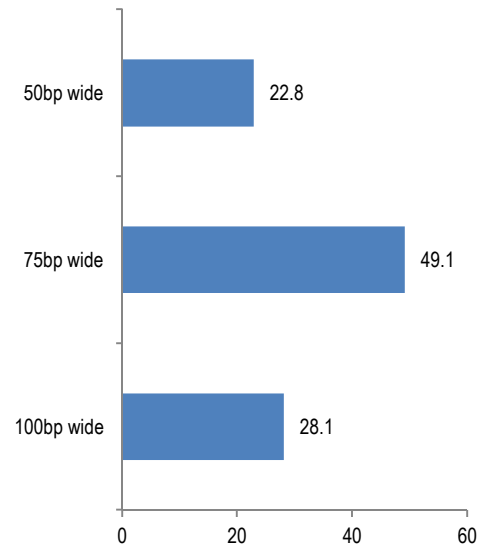
26. Do you think Latam assets are pricing in increasing political noise in the region?



27. What do you think about Argentina corporates post-recent restructurings?



28. Given recent events, how wide do you think Petrobras belly should trade to the sovereign?



Summary of Panel Presentations

Global Focused Panels

The main themes and drivers of EM corporates

The rise in rates poses a risk to markets, but EM corporates are likely to hold up better given the shorter duration and resilient fundamentals. The higher commodity prices also provide support for CEEMEA (especially lower rated countries and HY oil) and Latin America (oil exporters and iron ore / copper within metals & mining). Credit ratings should be at a stabilized trend after the downgrades in mid-2020, and while there are some uncertainties around COVID-19 and China onshore defaults, the baseline is for a relatively benign outcome. Although default activity picked up somewhat in the early part of the year, a major contributor was distressed exchanges from Argentina, which are still providing elevated recovery rates, thereby limiting impairment. On the question of corporates trading through the sovereign in CEEMEA and Latin America, the view is that the resilience of corporates can make it sustainable. Indeed, corporates in many of the major countries held up quite well fundamentally despite the shock from COVID-19 and political noise in some cases. ESG has been becoming a major focus for both issuers and investors with the adoption led in Europe but also picking up in other regions.

Where are markets headed: JPM's top cross asset trade ideas and macro views

The global economy will experience its strongest performance since the early 1980s, and reflationary tilt will be sustained beyond this year, with US nominal GDP forecasted to average roughly 7% growth over this year. The compromised market microstructure and fragile liquidity were the key drivers of last week's US Treasury sell-off, with the 5- and 7-year points on the curve most vulnerable. The bulk of the rise in US rates can be justified by the upward growth revisions and accompanying inflation expectations as a 2 %-pt increase in growth implies a 30bp to 40bp rise in rates. Primary dealers took down double their usual market share, highlighting the liquidity risk. The current market conditions are not reminiscent of those that prevailed during the 2013 Fed taper tantrum. During the 2013 Fed taper tantrum, rates were trading 40-50bp below fair value, whereas 10-year yields are now trading cheap given the 50bp rise in US 10-year yields since the beginning of the year. Some recommendations include taking risk across and within Equities hedged with Commodities and view the EM complex as most vulnerable to rising yields. Our equity strategists expect their short-term price target of 4,000 to be reached in the next few weeks and reiterate their target for the S&P 500 to reach 4,400 later in the year. Financials are the highest conviction overweight within US equities, benefiting from reflation and low positioning.

Hurdles for EM sovereign ESG strategy

With sovereign ESG in emerging markets at a nascent stage, investors must first clarify their objectives. It is important to first clarify whether investors deem ESG as an input or output; as purpose-neutral or purposeful. Only once this is clear can ESG frameworks be aligned to serve such objectives, which likely include real-world impact, effectively. As civil society becomes increasingly aware of the ways in which the financial sector can support sustainable development, the more asset owners are likely to reflect this back to investment managers and thus raise the

threshold for ESG integration, not just in ESG-specific funds but more broadly. To that end, early iterations of exclusionary ESG approaches are likely to be replaced with more thoughtful approaches which connect emerging market issuers to international capital markets in a way that is sustainable for both the country and the world. Regulation will remain an important factor in formalizing ESG frameworks though it does not currently dominate investor motivations and should not be relied upon to singularly drive the expansion of sovereign ESG, particularly as regulation cannot always account for the unique challenges faced by fixed income investors.

ESG frameworks and data are hurdles to overcome. Having been derived for corporates, ESG frameworks do not translate perfectly for sovereigns and can serve to reinforce gaps in sustainable development, rather than close them. This is largely due to the ingrained income bias—that is, ESG scores are largely determined by a country's level of national income—which is difficult to entirely strip out and is pervasive in other metrics or proxies of ESG scores, such as the Sustainable Development Goals index. Though these issues are difficult to overcome, at the least, stakeholders of sovereign ESG should agree on a broadly consistent framework. Data challenges are another major hurdle for sovereign ESG investors, particularly in EM where even macro-economic data can be flawed. While governance factors have long been incorporated into sovereign credit analysis, broadly speaking investors are underrepresenting the environmental pillar in sovereign ESG considerations due to data limitations. With significant lags relating to the frequency and timeliness of environmental data, there is an opportunity and economic incentive for data providers to address such short-falls. Data deficiencies also exist in relation to the social pillar and more broadly, sovereign ESG is an under-researched topic but going forward we can expect increased dialogue, engagement and research insights from ESG stakeholders, including J.P. Morgan.

The Golden Mean – EM Investing Amidst Rising Growth and Higher Rates

A repeat of the taper tantrum would be less focused on external imbalances and more on debt vulnerabilities this time around. In recent weeks, both EM FX and local rates have been moved to MW (from previously OW) with the rise in US real yields brought forward by expectations of larger US fiscal stimulus and strong economic data. Panelists don't think that the pressure on EM assets is a fade just yet. Looking ahead into 2Q, global growth leadership will shift to the US, leading to a step-back from EM local markets. EM sovereign credit remains an OW with a preference for HY as the asset class has a more asymmetric pay-off to high commodity prices, while cognizant that restructuring concerns are still ongoing. Some EM growth forecasts were upgraded on the back of the revisions in the US, especially in countries with direct trade linkages. However, the spillover won't be as large since China is the biggest external engine for EM growth. Additionally, much of the DM growth is set to come from the service sector which doesn't provide the benefits of a typical cyclical upturn for EM. Within these business cycle dynamics, the view is to remain decisively bullish on oil given expectations of a strong demand recovery and high OPEC supply discipline; and remain negative gold and copper.

The Future of US-China Relations: What Lies Ahead in the Biden Administration

Despite competition and contentious issues, there is likely to be more stability and predictability in US-China relations. The worldview of administration is different

with belief in market democracy and international cooperation, which should reduce the risk of hostility that could be negative for financial markets. The new administration will need to publish their agenda on China, which are likely to include human rights issues and how to address the competition in technology. This will entail difficult decisions on rules and licensing which could be disruptive but will have to be tackled as it also relates to national security. Phase 1 deal implementation should continue, and the commitment towards enabling fully owned financial companies by foreign companies in China will be a significant component. On the economic side, China growth has held up well with a strong recovery led by manufacturing and exports benefiting from the technology sector, but quarterly momentum should slow down to more normalized levels. The annual growth will still be a robust 9.5%, marking a complete recovery. There will be a transition to the private sector from public, with normalization in policy through 3-4% fiscal consolidation and lower credit growth. The high level of debt will be a challenge over the medium term, and require SOE and local government reform. Monetary policy will remain relatively accommodative, with low chance of hikes in short-term rates.

G-20 Common Framework and EM debt restructurings: Common Friend, or Common Foe?

The G20's Common Framework for debt treatments beyond the DSSI is applauded in spirit, but there is scope for further clarifications to facilitate its successful implementation. The need for debt relief is pertinent, particularly among poor countries still facing the aftermath of the pandemic. Ethiopia's decision to opt in to restructure debt under the Common Framework may have been a surprise for markets, especially as the last IMF Debt Sustainability Analysis (DSA) in May 2020 still deemed the country's debt as sustainable, but in reality, the country has since entered into a civil war. And while the official sector's commitment to providing debt relief and mechanisms for countries to engage holistically with creditors is applauded, there are sources of confusion which are a deterrent to achieving the ultimate objective of carrying out a fair and equitable debt restructuring to put the debtor country on a sustainable path, with burden sharing among official bilateral creditors and private creditors like. Whether or not successful engagement with Chinese creditors, by far the largest creditor for the 22 DSSI-eligible countries with Eurobonds, would come to fruition remains to be seen. Meanwhile, the IMF's role in conducting the DSAs remains crucial, and given the large degree of uncertainties in the face of the pandemic, the Fund could relax its DSAs. The potential increase in SDRs is seen as a significant source of support for EM countries, but needs to be redirected to countries in need. There is scope for the G-20 in conjunction with the IMF and World Bank to publish a centralized source of information laying out the facts and issues addressing key questions for all stakeholders involved.

The past, present and future of EM corporate demand

Relatively stronger fundamentals (credit metrics & default rates) and defensive characteristics (country composition/duration) of EM corporates are gaining recognition among investors while lower DM yields have also supported technicals, leading to more structural EM corporate demand. CEMBI dedicated AUM has been growing (\$136bn today) and while there is a fair bit of room to catch up to EMBIG (\$415bn), EM corporate retail strategies have been attracting more funds than EM sovereign funds since 2019. The downside remains EM corporate's lower liquidity, however, there is greater appreciation for the asset class' stability for strategic allocation and comfort that they will not be fire sold. Sources of investor demand

remain well diversified, including dedicated and onshore Asian investors with structural interest building from European investors (including pension funds) as well as US insurers alongside more cyclical demand from wholesale private banking. Recent structural changes include ESG driven demand and blended benchmark mandates. Within the asset class, there has been growing recognition that the opportunity set for alpha generation has increased in Asia and Middle East vs being more Latin America focused in the past. With dedicated investors increasing their OW to corporates last year, the trend is likely to continue in 2021 while crossover investors, having reduced EM corporate allocations in 2020, have room to catch up in 2021.

The ins and outs of EM corporate relative value

To assess the relative value in EM corporate against other asset classes, panelists mentioned the need to dig beyond the headline index level spreads and consider the difference in composition, duration, and ratings. In an environment of compressed spreads and yields, it is ever more imperative to have a correct assessment of the underlying valuations. This is the case when comparing CEMBI spread to EMBIG and US credit, where CEMBI spread may look rich at first glance, but is actually not so when taking into account the much shorter duration and higher quality rating composition. Moreover, the sovereign rating ceiling in some cases artificially understate the credit fundamentals of EM corporate issuers, leading to significantly stronger credit metrics compared to similarly rated DM companies. Indeed, the perception that EM credits need to offer a spread premium to DM issuers at the same rating level is not accurate, and this is reflected in the average leverage ratios of EM issuers being far superior to DM segments of the same rating bucket. Panelists noted that quasi-sovereigns in many cases also provide an attractive opportunity to pick up spread over the sovereign. However, quasi-sovereigns may be less justified to trade through the sovereign, except in cases where the issuer has substantial amounts of offshore cash that can be used to service hard currency debt.

EM corporate supply – refinancing still focus, ESG picking up

EM corporate primary market activity continues to be robust coming into 2021 after record activity last year, driven mainly by refinancing. Supply related to expansionary capex or M&A activity remains fairly limited and this trend is expected to continue in the near term. By region, Asia continues to lead volumes mainly driven by China though there has been an increasing focus on the onshore market. Nevertheless, issuers would still come to the offshore market for longer tenor issuance (5-6Y) while shorter tenors are more popular in the onshore market (2-3Y). In EM Europe, activity has largely been limited to refinancing since capex and/or other capital needs can be funded in the local markets. Middle East & Africa is the region where some pickup in activity is expected but in terms of absolute volumes, it is still a relatively smaller region. In Latin America, YTD volumes have been robust driven by Brazil but overall activity is still fairly subdued compared to historical peaks. Liability management exercises continue to remain elevated in the region with issuers being opportunistic to swap out shorter term debt with low coupon longer term debt. Unscheduled redemptions have picked up in Asia as well (mainly calls vs tender/buybacks) but this has been more of a focus for high yield issuers vs high grade issuers.

ESG-related bond supply has picked up quite a bit this year with about \$20bn in ESG issuance YTD (or 17% of total supply), which is much higher than historical average

(5-7% of total supply). While green bonds have been the more popular structure of issuance, sustainability-linked bonds are gaining more traction due to flexibility of capital allocation (i.e., proceeds could be used for multiple projects etc.) as opposed to green/sustainable bonds where there is a limit to funding and restrictions in allocation. But rather than the structure of an ESG bond, there is more focus on ESG disclosures i.e., issuers having some kind of green/sustainability framework.

Can EM corporate rising stars exceed fallen angels in 2021?

Rating trends have been stabilizing since 2H20 but panelists do not yet envision 2021 as a year of rising stars. The rollout of COVID-19 vaccines led to an upward adjustment to global economic and EM corporate fundamental recovery expectations. With that, 2021F revenues are still expected to end the year modestly below pre-COVID-19 projections with divergent sectoral trends. Unsurprisingly travel/leisure will take the longest to recover while and retail/consumer segments are recovering much more quickly than originally thought. Meanwhile, China's faster turnaround from the pandemic is leading to the most robust increase in top line recovery expectations in manufacturing/capital goods sectors and construction/property sectors. Margin expectations have similarly been revised up but EBITDA is still expected to be down -10% from pre-pandemic 2021 projections. While the median gross leverage is not seen changing too dramatically through the pandemic, the dispersion increased a lot with the number of companies carrying high or negative leverage growing substantially. By one of the estimates, 1/3 of APAC, 1/3 EMEA, and 1/2 of Latin America companies are expected to return to pre-pandemic fundamental levels by the end of 2021, with more recovery in 2022. The ebbs and flows of stimulus at individual countries will be important to watch, with China for instance having already begun withdrawing stimulus late last year given its robust recovery. Corporate behavior is generally expected to remain prudent even as capex will rise from 2020 lows while there is also some potential for dividend recovery.

There were varying levels of optimism on rating recovery trajectory for this year. One of the panelists suggested that while there is not an insignificant portion of EM corporates on a negative outlook, a fair bit of that is precautionary and execution rate on such negative ratings could be lower than the historical 50%. Nevertheless, both panelists agreed that before rising stars become a trend, negative outlooks will first need to turn stable. Downgrade intensity has been lower in EM than in DM, both across IG and HY and that is expected to remain the case in 2021. Regionally, Latin America rating trends stacked the worst among EM corporates for 2020 and the outlooks remain least favorable for the region, although much of that is sovereign driven.

Global bank panel – Comparing and contrasting risks and opportunities across EM

Topics discussed ranged from the COVID-19 impact on banks to Turkish banks, AT1s, NBFIs in Latin America and main picks. Most panelists seemed to agree that asset quality is the main challenge for 2021, but most importantly, the overall tone was positive with a consensus view that EM banks are relatively well positioned to withstand upcoming challenges. China and Russia were, nonetheless, highlighted as the banking systems that have best dealt with the COVID-19 outbreak, while banks that adopted a conservative approach and were pro-actively increasing provisioning expenses were highlighted as best prepared to face upcoming increases in delinquencies. Colombian and Panamanian banks, in contrast, were mentioned

among the weakest in terms of response to the outbreak. In addition, some panelists seemed a little more concerned about Turkish banks, while there was some controversy over China ATIs. Specifically, the asset class was perceived to offer value due to its defensive nature, but one panelist pointed out that it does not look attractive from the perspective of dividend yields. Finally, there was disagreement over NBFIs with one panelist mentioning that there is still more room for compression and another one stating a preference for larger financial institutions given the existing vulnerabilities of the NBFIs.

On the other side of fundamental and default hump

EM corporate fundamentals headed into the COVID-19 pandemic in a very strong shape and investors were pleasantly surprised by how resilient EM corporates remained throughout 2020. China's early economic recovery led to a beginning in fundamental recovery across EM corporates in 2H20, which once again was better than expected. In terms of 4Q earnings, the share of positive surprises in Latin America has been higher than in Asia. Specifically, the strength of the metals & mining, oil & gas, and consumer segments have been ahead of expectations, while even in some of the hard hit sectors such as transportation, there have still been some bright spots (i.e., cargo). Nevertheless, some cyclical segments are still expected to take time to recover and the gaming sector was highlighted as one that may not recover as fast as some expect. Banks have been resilient, but going forward there could be more differentiation. In terms of risks and opportunities to fundamentals, there was a sense that opportunities are fairly reflected in prices, but that the current backdrop may be helpful to grind spreads somewhat tighter still. Some of the highlighted risks included weaker sovereign balance sheets, UST yields, slower vaccine rollout, and valuation impact of downgrades/fallen angels. All in all, panelists expect to see further improvement to EM corporate fundamentals and defaults/distressed exchanges limited to Argentine corps plus a few idiosyncratic stories. These fundamental strengths combined with EM corporates' low duration, faster growth, larger market cap, lower leverage, and lower volatility were noted as pros in favor of EM corporates in the context of global credit portfolios, while weaker covenants were noted as a con.

Fears of Asset Bubbles: Causes, Market Implications, Consequences and Hedging Strategies

Topics discussed were the outlook for global markets, including the implications of growing retail participation in US equity markets, the increased acceptance and adoption of bitcoin and possible market consequences. Panelists do not see a broad equity market bubble but rather certain pockets of the market that are experiencing hyper growth such as electric vehicles and renewables. Credit markets do not seem to be in a bubble and spreads might have the capacity to move tighter from current levels. Moving to the crypto space, the rally in Bitcoin continues, with current prices well above most recent estimates of fair value, as Tesla, BNY Mellon, Mastercard and PayPal announced measures that point to growing acceptance and adoption. Bitcoin does not have any kind of value as a hedging vehicle in the current environment given the same investors drawn to Bitcoin are typically the same type of investors drawn to single name stocks in equity markets. The correlation between Bitcoin and equities has risen meaningfully over the past year and looks to likely be sustained. In a multi-asset portfolio, investors can likely add up to 1% of their allocation to cryptocurrencies in order to achieve any efficiency gain in the overall risk adjusted returns of the portfolio.

Eskom vs Pemex revisited

Eskom appears to be better positioned relative to Pemex across all three dimensions discussed by the panelists. One, substantial government support has been well telegraphed and already partially dispersed, while at Pemex it remains more limited. Two, operationally Eskom is stabilizing and credit stats have seen the worse already with material improvement ahead, while at Pemex they continue to deteriorate. Three, debt is diversified across various sources and maturity profile is not lumpy, while at Pemex it's majorly concentrated in the capital markets. Going forward Eskom is embarking on structural changes that are largely missing in case of Pemex.

Latin America Focused Panels

How to Play Latam Corporates in 2021 – The view from the experts

Panelists discussed several topics including main risks, government interference in quasi-sovereigns, Colombia downgrade, ESG and best picks. Overall, the tone was slightly positive on Latin America corporates with two out of three panelists mentioning their preference for Latin America within the universe of EM corporates and specifically HY. Colombia was one area of consensus with the main view that a downgrade should not pressure valuations too much given current trading levels and scarcity value. The panelists were also not too concerned about government interference in quasi-sovereigns with the view that this is a known attribute of the region. There was some controversy related to Pemex, but the predominant opinion was of a good risk-reward proposition. There were also some diverging views related to bonds with ESG-provisions. Specifically, ESG has been a growing area and all of them welcome the initiative, but not all were in agreement that bonds with ESG-provisions deserve premiums.

Should I cry for you Argentina? Breaking down the future of policy in Argentina

Macroeconomic conditions continue to be a drag for corporates, but there could be some opportunities. Panelists agree the economy has not yet found an equilibrium and policy continues to be disruptive, particularly on FX. The government has yet to unveil a comprehensive macroeconomic plan and is unlikely to make major changes in an election year and pending an IMF deal. However, corporates have been able to cope so far and have shown more prudent behavior than the sovereign. This is already exemplified by where corporate valuations are relative to the sovereign. Given the different mandates of the speakers some saw more value in getting involved in Argentina but they all agree that certain sectors such as consumer or more domestically focused could be more vulnerable. Importantly, investors agreed that there needs to be a medium term approach to investing in Argentina given the volatility and the illiquidity of bonds

Latin America protein – The impact of deforestation on Brazilian protein industry

Brazilian beef producers are moving in the right direction regarding deforestation risk, but there is still a lot of room for improvement. Cattle ranching is a major driver of deforestation in Brazil and one of the top three main contributors to deforestation globally. While the companies claim to only purchase from cattle suppliers located in free-deforestation areas, the major issue the industry faces is the difficulty to track indirect cattle supply. There are ongoing initiatives to increase cattle traceability and panelists agreed that the Brazilian beef companies are moving in the right direction, but there's still a lot to be done. Productivity gains could also help decrease deforestation. The panelists, however, pointed out the lack of clear targets to reduce greenhouse gas emission, the need for standardized reporting and external auditing as issues that need to be addressed. The panelists also discussed the low ESG scores for the Brazilian beef companies, which are driven not only by deforestation risk, but also incorporate a high industry reputational risk. On the lending side, the panelists called the attention for the risk of greenwashing of ESG-labeled instruments and

highlight investors should favor instruments that have clear linkage with deforestation KPIs for example, which would help promote change in the industry.

Fifty shades of green in Latam ESG

The panel discussed the increased focus ESG has received over the past year and the abundance of recent ESG-related new issuance. Sustainability-linked bonds are expected to become more relevant amidst growth in ESG issuance, with investors seeing these instruments as an effective means to align issuers with their ESG commitments. Data show that ESG-gearred strategies provide better risk-adjusted returns, with the J.P. Morgan ESG suite of indices outperforming conventional ones by 40bp on average. Not surprisingly, assets benchmarked to ESG indices more than doubled in 2020 and are expected to do it again this year. Supply of green, social and sustainable bonds is expected to increase 50% yoy in 2021, while that of sustainability-linked bonds could rise 1.3-1.5x. Panelists consider the latter to be an ideal instrument to enhance corporates' ESG impact, as the coupon step-up imbedded in the bonds provide an incentive for issuers to reach forward-looking and measurable ESG commitments. While they think the standardized 25bp coupon step-up seen in recent issues is minor, particularly for issuers with large cap structures, they believe the reputational risk from missing targets serves as another alignment mechanism. In addition, the impact of such step-up could become greater as issuers begin to adopt sustainability-linked bonds over conventional ones. Panelists also discussed how they analyze ESG and shared the largest challenges they are currently facing.

Can Colombia avoid a downgrade to HY?

Colombia is still at risk of becoming a fallen angel but the decision could be postponed to 2022. Colombia currently has two negative outlooks on its sovereign BBB- ratings at Fitch and S&P, but the downgrade decision appears to be a very close call for this year, with an increasing likelihood that it would be postponed to 2022. The panelists overall agreed on Colombia's positive growth trajectory for this year (JPMe +5.8% 2021 GDP) and the approval of a fiscal reform seems likely. Timing and size of the reform, however, are still unknowns. They agreed that what is important is that the fiscal reform is significant enough that it provides an anchor for growth to pick up in the medium term. In fact, to stabilize metrics medium term growth would have to come back to a 3% sustained growth trajectory. Regarding valuation, sovereign and corporate bonds do not appear to be fully pricing in a downgrade risk. In case of a downgrade to HY though, corporate bond spread widening could be short-lived given the higher quality and scarcity value of the Colombian corporates.

Dialing into Latam TMT

Current trends in Latin America TMT were discussed on this panel, including the recent boom in deals for infrastructure assets as well as topical credits including Digicel, Oi, and TV Azteca. Panelists noted recent transactions including America Movil's towers and Telefonica's fiber in Chile and Brazil. They generally agreed that the strong demand for and investment in fiber should continue, though they are not too concerned about any increase in leverage as long as ARPUs for planned buildout remain stable, driving solid ROIC. Panelists also see additional infrastructure sharing agreements, such as what has been announced by Telefonica.

On Digicel, panelists discussed the recent improvement in the credit, though did note that some recent tailwinds have been outside of the company's control. The panel discussed the recent rally in Digicel's bonds, the company's improved capital structure, strong liquidity, and stable underlying performance but highlighted that some tailwinds, including asset sale rumors and currency are outside of the company's control. Overall, panelists highlighted improvements in the business and valuation of underlying assets, though a still over-levered capital structure that will likely go through more exchanges; it was noted that the company could call bonds currently above par. The ongoing divestiture of Oi's assets was also discussed, with panelists generally agreeing that there is limited visibility on outlook but that the positive impact from the asset sales seems relatively reflected in current prices.

Exchanges and restructuring of Argentina corporates, what comes next?

Companies are in better shape compared to the early 2000s, but risks are still high. The corporate universe is lower levered and more seasoned compared to the previous wave of restructurings and the composition of investors involved has also changed, geared towards more international investors. While the base case remains for exchanges to continue and major restructurings to be limited, this ultimately hinges on government policy and visibility is still low. YPF's exchange terms should not serve as a base case for what is to come in potential future exchanges, as there was a certain degree of politics involved in the YPF case, given the strategic importance of the company in the oil & gas sector. Overall, panelists believe that meaningful risks are embedded in valuations, including PPA renegotiations for the gencos, but the details of any proposals will dictate final recovery values. Hence, given the high level of uncertainty, it is hard to define if changes to contracts are fully priced in.

CEEMEA Focused Panels

CEEMEA strategy: credits to buy, shed and watch

According to panelists, value in the CEEMEA credit universe lies almost exclusively in the high yield space. Accordingly, exposure to HY countries with stable or improving macro outlook, such as Ukraine, Turkey and Georgia, is recommended, ideally via bank sub paper. Another area of focus is the HY oil universe, which offers an attractive premium relative to the rest of sub-IG CEEMEA. Moreover, oil & gas credits benefit from earnings momentum considering the favorable oil price backdrop and the easy comparisons with 2020. Overall, panelists do not see much value in investment grade names with some exceptions in Abu Dhabi (ADGLXY, IMDB Energy), Dubai (INVCOR, EMIRATE, DIFCAE) and Russia (Gazprom, Lukoil, Alrosa).

Ukraine: A dive in macro and corporate universe

The panelists shared their views on the Ukraine's sovereign and corporate credit. In contrast to developments in a number of peer countries across the region, the net foreign assets position of the Ukraine's monetary system (central bank and banks) has improved tangibly over the recent years, without the economy raising significant amounts of external debt. This is viewed as an important positive. Cooperation with the IMF is still important, and on that side risks have increased. Concerns relate to 1. The introduced cap on gas prices (the base case is that this cap will expire in March without renewal) and 2. Bills submitted dealing with the NABU and the High Court of Justice, which are against IMF demands. The panelists currently expect that negotiations with the IMF continue in 2Q, and a disbursement takes place in 3Q.

Ukrainian commodity producers Kernel and Metinvest benefit from improvements in commodity prices and both these and MHP have comfortable balance sheet positions; there are higher concerns on Naftogaz. Both state banks Oschad and Ukrexim remain weak stand-alone but continue to be well supported. The panelists expect that the sovereign, Naftogaz and Ukrainian Railways could issue this year, while no issuance is likely from banks.

South Africa: How have recent events shaped politics and policies?

It's night and day in South Africa when comparing Ramaphosa to his predecessor. South Africa today is in a completely different place largely because of Ramaphosa's leadership. Criticism of his perceived slow implementation of policies and tackling of corruption is generally unjustified. Ramaphosa is committed to weeding out corruption, and strengthening of National Prosecuting Authority and arrest of significant number of senior political operators in the past year are some of the measures of success in this respect. On the policy front, COVID-19 slowed down implementation and court procedures took longer than expected. Besides, Ramaphosa's inclination to consult widely is good for his longevity but not for speed. Overall, he has gained strength and support, both from the population and from ANC, and will likely go for a second term. ANC also realizes that they cannot win the next election without him.

Turkey — Charting a Course Correction

Geopolitical and economic policy has begun to shift, but the key question remains about the durability of Turkey's pivot. Turkey's relationship with both the US and EU has taken on a more conciliatory tone following US President Biden's election. While longer term strategic interests align Turkey, the US and the EU, the underlying tensions that have been the source of consternation in recent years have not disappeared and will ultimately need to be addressed in a non-confrontational way. More recently, Turkey's relationship with China has become more cordial and is growing in importance; while this is not a strategic pivot, it broadens the scope for greater cooperation, particularly in central Asia where interests overlap. The shift in the geopolitical tone has been matched by a shift in domestic economic policy as well, with more orthodox macro policy frameworks re-established following the change of central bank governor and finance minister late last year. Questions remain over the durability of the policy pivot, particularly as the consequences of tighter monetary policy, including tighter credit conditions, could have political costs. Nonetheless, Turkey's corporate sector remains resilient and has become well versed with navigating challenging economic conditions. Investor confidence is visible in asset prices, and, at the margin, investors will likely reward the credibility that comes with tighter policies than short-term stimulus temporarily boosting growth. The rally in Turkish equities has been led by the non-bank corporate sector, a sharp departure from the historical norm, as lower loan growth weighs on financial sector profitability. However, the private banks, which ceded share to public banks over the past year, are better placed to regain market share when growth returns.

Asia Focused Panel

Asia credit - Value in the eye of the bondholder

Asia credit has again demonstrated its resilience last year. The panel believes recent market volatility would make Asia credit more appealing to investors looking for lower beta opportunities. One key topic for Asia is the US-China tension, which is unlikely to abate. But it should be highlighted that its impact on China corporates is likely to be more on technicals due to force selling by some investors rather than fundamentals given most China corporates are not highly exposed to the US market nor dependent on the USD capital markets. Recent news on credit tightening on the property sector and some idiosyncratic risk have weighed on market sentiment on the property sector, but sector fundamentals should remain intact given strong physical demand. Some of these new regulations (e.g., the three red lines) should actually instill more financial discipline on the sector. The China onshore bond market could continue to see a rising default rate as the government now has higher tolerance for weak government-owned entities to restructure their debts. But this should not have much spillover to the offshore bond market after some clean-up last year. Asia financials have proven to be rather resilient last year. While they may not have seen the worst in NPLs, most banks are well capitalized and/or supported by their governments. As such, it makes sense to go down the capital structure of stronger banks or leasing companies for yield. While the market has not attached much ESG premium for now, ESG investing is gaining some traction among Asia investors, but some investors (e.g., private bank end clients and local fund managers) are still lagging behind. Another key topic is how investors should reposition in light of deflation. There are several sweet spots, such as HY corporates, the belly of IG corporates, perps with high coupon step-ups and capital instruments (e.g. AT1) from well capitalized banks or non-banks.

China credit - US sanctions are more flows than blow story

China Credits have been rather volatile in the recent few months due to the US restrictions on investments in certain Chinese companies. The restrictions for new purchases were in place from Jan 11, 2021 onwards while existing holdings would have to be sold by Nov 11, 2021. The US government has published a list of entities that are affected by the restrictions and prohibitions on any additions to the list would come in force after 60 days. Accordingly, restrictions on entities like CNOOC Limited which were added to the list on Jan 8, 2021, would come in force from March 9, 2021 (see [link](#)). However, since CNOOC's bonds are issued by wholly owned SPVs and not the listed entity itself, its bonds may not be removed from J.P. Morgan's credit indices unless the OFAC publicly lists such SPVs as well or gives specific guidance to that effect (see [published note](#) for details). New bonds from any of the affected entities will not be included in the indices for now. Overall, the impact of these restrictions would affect bond technicals rather than fundamentals of the affected entities as: a) most of the affected companies do not have significant revenues from the US or even outside China, and b) they are not dependent on the foreign capital markets for bulk of their funding. In addition, the affected credits are mostly quasi-sovereigns and hence have very strong access to domestic capital market and bank lines. On the technicals however, the impact is likely to be much more material, though to varying degree across different credits. The worst technical impact for certain credits like ChemChina, which bore the maximum brunt of the selling post the initial [Executive Order](#) 13959 in November 2020, may be already past while certain credits like CNOOC, or the tech majors where US investors look

to be still quite heavily involved, could see more selling pressure if these entities and their bonds come in scope of the US restrictions.

India credit - High spending for high growth?

Indian Credits have seen a roller-coaster ride over the year as concerns from the pandemic impact on the economy led to the market pricing in a sovereign downgrade to High Yield in the middle of last calendar year but spreads have also recovered quite sharply thereafter as the economy rebounded strongly in 2HFY21. Despite a very weak GDP print in 1QFY21 (-24%yoy), growth for full year FY21 is expected to close at a relatively modest -9%yoy. Several sectors such as steel, automobiles, infrastructure, real estate etc. have led the recovery in 2HFY21 while capital goods and discretionary spending have been key laggards. That said, the economy may not come out of the pandemic completely unscathed as debt to GDP is expected to rise from low-70% to ~88-90% by Mar-21e and settle around mid-80% levels for the next few years at least. While this is still quite high debt levels for BBB-rated economies, there are key mitigants in India's case, to the typical vulnerabilities that are generally associated with high fiscal deficits and debt to GDP, which includes low foreign ownership of government debt, high FX reserves, high medium to long term structural growth expectations which also allow strong capital account inflows to offset current deficits.

While rating agencies have kept India's IG ratings unchanged, two of the three agencies also have a negative outlook as the economy's recovery in the coming years is not without challenges. In the recent budget, the government has chosen to go on the typical "fiscal expansionary" path, boosting government spending to jumpstart growth and also announced several key reforms such as bank capitalizations and privatization of select public sector banks, bringing several off-balance sheet items on balance sheet, aggressive asset sales targets while being conservative on the tax revenues estimates, in our view. These measures, if well executed, should allow the government to fund its key initiatives to revive the economy while also allowing some buffers for external factors such as higher than expected oil prices. In terms of views on Indian credits, the preference is for HY corporates over IG corporates with the latter looking quite tight relative to JACI BBB-rated peers. In the HY segment, the preference is for commodity related credits and select renewables, with the latter also benefiting from a greater pool of global capital being allocated to the sector due to ESG-considerations.

China property sector – Where the policy wind blows?

With signs of continuing strength in the housing market, the Chinese property sector remains in a policy tightening phase. Besides the widely anticipated three redlines for the developers and lending caps on the banks, regulators are mulling to add another policy tool at their disposal by centralizing land supply on a city by city basis. The panelists shared the view that new credit rules requiring the developers to improve their financial profile would instill better discipline. This should also force developers with weaker credit metrics to converge towards that of stronger peers. Such trend of credit improvement could be a driver for positive rating actions. While policy headlines continue to take the spotlight, it is important to note that the housing sales rebound and economic recovery have not been broad based, with certain regions and markets still lagging behind the coastal provinces. Local policies would likely differ, and cities grappling with slower growth could get more breathing room. But given healthy sector fundamentals and some signs of overheating, the panelists expect the top level policies to stay on the tight side or further efforts to cool the

housing demand. Unlike China Fortune Land, most residential developers are in a position to prioritize contract sales and asset disposal to better manage their liquidity.

Indonesia credit – Still game for a wild ride?

Indonesia credits are sensitive to macro environment and global EM sentiment given the country's twin-deficit status. Notwithstanding the economic shock of the COVID-19, Indonesia turned its current account into a surplus as imports shrunk faster than exports. Meanwhile, higher domestic saving rates and Bank Indonesia's bond buying helped fund the government's budget deficit. All these enabled the country to weather through last year relatively well. Ironically, once the economy is expected to recover this year once the pandemic is under control, Indonesia has to deal with its old issues, i.e., funding for its current account and budget deficit that is still dependent on portfolio inflows that are sensitive to EM fund flows. The panel believes that the government would have to triangulate its trilemma conditions to juggle between currency, rates and capital flows. Judging from its track record, the government is likely to focus on financial stability, which may mean that rates could have to adjust to stabilize IDR. Recent outflows from Indonesia's bond market are thus a trend to watch. Another key development to monitor would be whether the government will rein its budget deficit once the pandemic is over, although it has built up some credibility of financial discipline. Meanwhile, the government has continued to push through some structural reform, e.g., the OMNIBUS Law and Indonesia Investment Authority that are meant to attract foreign direct investments. Indonesia stacked up relatively well against other BBB-rated sovereign. Its debt level remains low, but it has to improve on its tax collections and look for ways to attract more foreign direct investment to lessen its dependence on portfolio flows.

China rising onshore defaults – Reading the tea leaves for offshore credit

Onshore bond defaults, both in amount and as a percentage of HY-equivalent stock, have been rising in recent years and will likely lead to offshore implications. With the Chinese economy shifting focus to quality of growth, the debt problem needs to be addressed along with further reform to grow the domestic bond market. From the first bond default in 2014 to record defaults by SOEs, the trends thus far demonstrate higher tolerance for mismanaged companies to restructure their debt. The panelists believe defaults can rise further, even in resilient sectors such as real estate, but do not expect too much spillover to the financial system. Additionally, the panelists highlighted that the legal framework in China has already grown in sophistication to support recovery on non-performing loans. As the default history involving corporate bonds has been relatively short, what have been codified in the bankruptcy law are to be tested. In some recent cases, difference in treatment still exist between onshore and offshore creditors due to a number of socio-political reasons. That said, the legal regime could continue to evolve to accommodate situations involving offshore bondholders, with their treatment eventually aligned with onshore counterparts.

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